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SUBJECT: FRANCE'S INDUSTRIAL POLICY: MORE MONEY FOR EUROPEAN  
PROJECTS

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Summary

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1. (SBU) On April 25, French President Jacques Chirac unveiled the first six industrial projects to receive public funding following their recent selection by the Agency for Industrial Innovation (AII) -- his weapon of choice for advancing his new industrial policy. Unsurprisingly, Chirac's pet project to create a European Internet ("Google") search engine has been approved, along with Alcatel's Satellite mobile TV project, and three energy saving schemes, including a new Franco-German light rail subway train. At the same time, Chirac announced a new fund to be launched next July for the development of small and medium-sized companies. By announcing two major projects with a Franco-German and European dimension, Chirac hopes to strengthen a faltering partnership with Angela Merkel's Germany, extend his industrial policy model to the EU, and posit France and Europe again as an "alternative" to U.S. dominance in high technology. End Summary.

Stimulating French Industrial Policy: AII

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2. (SBU) The Agency for Industrial Innovation (AII), set up by President Jacques Chirac in August 2005 and inaugurated earlier this year, aims at inspiring "national champions" to invest in innovative areas such as nanotechnology, biotechnology, renewable energies, and energy efficiency through subsidies and reimbursable advances. Jean-Louis Beffa, Chairman of French glassmaker Saint Gobain, is President of the Board of Trustees of AII, which includes French CEOs and high-level economists. Based on Beffa's recommendations, AII will use its 1.7 billion Euro endowment (mostly revenues from privatizations) to cover half of the cost of the joint public-private sector R&D projects it chooses to support in the form of subsidies and reimbursable advances, with the companies expected to match the other half. Carried out over three to seven years, the first six projects are expected to cost some 600 million euros. However, they will first need to be approved by the EU Commission to ensure they do not violate EU rules against state aid to companies.

3. (SBU) In addition to these first six projects, AII will be examining another 30 projects before the end of the year. The new President of the Governing Board of the Agency, Robert Havas, a former advertising executive, has recently hired 12 high-caliber private sector French executives to beef up the agency's staff. Among them is Jean-Jacques Yarmoff, who has spent 15 years working for U.S. biotechnology firms.

The Six Industrial Projects

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4. (SBU) The most high-profile of the six projects is unquestionably the Franco-German search engine called "Quaero", (from the Latin "I seek"), personally backed by Chirac to counter U.S. domination on the Internet. The current partners in the consortium are French consumer-electronics firm Thomson SA, France Telecom, Deutsche Telekom, and Exalead, a powerful French search tool introduced in October 2004. German media group Bertelsmann has not yet decided whether to join the consortium, which also groups French and German research institutes. Quaero is not a text-based search engine, but rather is mainly meant for multimedia search. It will utilize techniques for recognizing, transcribing, indexing, and automatically translating audiovisual documents and it will operate in several languages.

5. (SBU) A second project involves French telecom equipment maker Alcatel's "Unlimited Mobile TV for Mass Market" initiative, made public last February. With this plan, Alcatel and its French partner Safran intend to use satellites to broadcast television programs over mobile phones.

6. (SBU) Three schemes focus on energy saving: (1) a new low-energy Franco-German advanced light rail train called "NeoVal", built by Germany's Siemens and France's Lohr; (2) a low-energy housing project by French firm Schneider Electric called "Homes" that aims to slash household electricity use by 20 percent; and (3) a hybrid diesel-electric car, already under development by the

French car maker PSA Peugeot.

17. (SBU) The final plan approved by AII calls for the French firm Roquette to produce plastics from starches obtained from corn, wheat and potatoes. This would reduce dependence on oil and gas, since most plastics are currently made from hydrocarbons.  
More Funding for Other Industrial Policy Tools  
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18. (SBU) In addition to the new industrial projects financed by AII, President Chirac confirmed that his other major industrial policy tool, the new 66 competitiveness clusters throughout France, will receive 1.5 billion euros in GOF funding between now and 2008. Designed to support research and development in the regions with the most competitive high-tech companies, the funding will consist of a combination of tax breaks and other credits for research and development, and would encourage match-making among French companies. The six industrial clusters, which are "operational" as of April 25 include: a medical/biotech cluster in the southeastern Rhone-Alpes region; an aerospace cluster around the southwestern cities of Bordeaux and Toulouse, where the passenger jet maker Airbus is based; a cluster around Paris for complex transport and navigation systems; a group for secure telecommunications technologies in the south near Sophia-Antipolis that will complement research done by the chip maker STMicroelectronics; a nanotechnology cluster near the southeastern city of Grenoble; and a biotech cluster "MediTech-Sant," which groups researchers and businesses around Paris.

19. (SBU) President Chirac gestured to France's smaller firms by proposing the creation of a two-billion-euro fund next July to promote their innovation and development efforts. Chirac also announced his intention to ask the Government to "create the conditions for a strong development" of small, innovative start-up companies in France. His recommendations should be included in the next Finance Bill.

Comment

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10. (SBU) Hoping to keep France from becoming a "museum country", Chirac has urged the government and the French (and European) private sectors to rise to the challenge set by the U.S. and Japan, and increasingly China, regarding the development of new technologies. The French government's predilection for a government-directed approach is nothing new. But times have changed, and this announcement has driven something of a wedge in the French business community between those who believe that it still takes government-financed "grand plans" to get France moving forward (like Airbus), and those who are wary of GOF involvement in industry. Furthermore, smaller firms fear that large companies will eat up all the government funding, leaving them nothing to develop their own research and development programs. Yet political concerns are also driving this effort, namely the desire to reinvigorate a currently weak Franco-German partnership, and to position France and Europe in such a way as to be seen as equals and "alternatives" to U.S. and Asian dominance in new technologies. End Comment.

Stapleton